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REGIONAL COOPERATION

Summary of the survey of economic and social developments in the region of the Economic and Social Commission for Western Asia, 1992

SUMMARY

Overall economic performance and outlook of the region improved considerably in 1992, thanks to, inter alia, progress in the implementation of economic reform programmes in Egypt and Jordan; the spread of privatization and policies of "opening up" to the Syrian Arab Republic, Yemen and other countries; the resiliency of Jordan and other countries in coping with the aftermath of the Gulf crisis; progress in the reconstruction of Kuwait; and continuing commitment to the Middle East peace negotiations, which, if successfully concluded, will have far-reaching implications for the growth and development of the region.

However, many serious obstacles to economic and social development in the region persist, including strained relations between certain countries in the aftermath of the Gulf war; demographic pressures on the limited resources of the region; unemployment problems aggravated by the Gulf crisis; the diversion of resources away from development to security and defence, also intensified by the crisis; intraregional income disparities; the severe constraints imposed by United Nations economic sanctions on Iraq's ability to reconstruct; intensified efforts by Israeli authorities to suppress the intifadah; inflation in Iraq, Lebanon, Yemen and other countries; delayed implementation of the May 1990 unification of Yemen; and the threat to foreign-exchange earnings posed by attacks on foreign tourists in Egypt.

* E/1993/100.

CONTENTS

	Paragraphs	Page
I. OVERVIEW	1 - 23	3
II. OVERALL ECONOMIC PERFORMANCE	24 - 36	8
III. SECTORAL DEVELOPMENTS	37 - 77	10
IV. SOCIAL DEVELOPMENTS	78 - 83	17

I. OVERVIEW

1. With the notable exception of Iraq, which continued to be adversely affected by United Nations sanctions, overall economic performance in the region, notwithstanding a number of detracting developments and features, improved significantly in 1992 (see table). This was reflected in higher aggregate output and per capita income levels, marked improvement in the internal and external balance situation and reduced inflationary pressures.

Macroeconomic indicators for the region of the Economic and Social Commission for Western Asia, 1990-1992

Indicator	1990	1991	1992
GDP (billions of dollars) a/	266.3	249.6	260.9
GDP growth rate (percentage)	-3.7	-6.3	4.5
External debt (billions of dollars	153.0	157.2	180
Debt service payment (billions of dollars)	14.5	15.4	..
External debt/GDP (percentage)	54.5	58.2	..
Exports (billions of dollars)	102.6 b/	89.3 c/	..
Imports (billions of dollars)	70.1 b/	72.1 d/	..
Balance of trade (billions of dollars)	32.5	17.2	..
Current account balance (billions of dollars)	4.3	-21.8 e/	..
International reserves (billions of dollars)	31.4 f/	36.4 g/	..
International reserves/import ratio (months)	5.3	6.6	..
Oil production (millions of barrels a day)	14.29	13.82	14.96
Oil revenues (billions of dollars)	81.7	68.0	77.5
Proven oil reserves (billions of barrels)	569.2	574.9	574.8
Proven oil reserves/total world oil reserves (percentage)	57.6	58.0	57.7
Proven oil reserves/production (years)	109.1	112.5	105.2
Natural gas reserves/total world gas reserves (percentage)	17.0	16.7	17.0
Agricultural imports (billions of dollars)	14.9	13.4	..
Agricultural exports (billions of dollars)	2.5	2.4	..
Agricultural trade balance (billions of dollars)	-12.5	-11.0	..
Manufacturing value added (billions of dollars)	23.0	..	..

(Source and footnotes on following page)

(Source and footnotes to table)

Source: Economic and Social Commission for Western Asia, based on national and international sources.

a/ At constant 1985 prices.

b/ Figures for Iraq and Kuwait are for seven months only and total $9.5 billion and $5.8 billion, for exports, and $5.1 billion and $3.3 billion for imports, respectively.

c/ Excluding Iraq and Kuwait.

d/ Excluding Iraq.

e/ Excluding Iraq, Kuwait and Lebanon.

f/ Excluding Iraq and the Syrian Arab Republic; figures for Yemen are for the first quarter only.

g/ Excluding Iraq, the Syrian Arab Republic and Yemen.

Foundations of regional development in 1992

2. Several developments have contributed to this improved performance. Progress in the implementation of economic reform programmes has enabled traditionally deficit-members Egypt and Jordan to reduce their internal and external imbalances considerably; contributed to the improvement of overall economic performance and prospects; enhanced their international credit-standing with positive effects on the external debt situation; and reduced inflationary pressures. Thus, the gross domestic product (GDP) of Jordan, which grew only marginally in 1991, is estimated to have risen by 8 per cent in real terms in 1992, while the rate of inflation dropped from 8.2 per cent to about 4 per cent. At the same time, the government budget deficit was reduced to 8 per cent of GDP (28 per cent in 1988) and the ratio of external debt to the gross national product (GNP) fell from 220 per cent to 150 per cent between 1991 and 1992. Moreover, budget estimates for 1993 foresee, for the first time, that domestic revenues will be adequate to cover government consumption expenditures and over 40 per cent of its investment outlays. Similarly, Egypt has experienced significant improvements in both its internal and external balance, with the State budget deficit reported at 7.1 per cent of GDP for fiscal 1991/92 (24.7 per cent in 1987/88); the Central Bank's foreign reserves standing at $10.5 billion by end-June 1992 ($6.3 billion at end-March 1991); inflation measuring less than 10 per cent at end-June 1992 (compared with more than 20 per cent a year earlier); and a very substantial reduction in the external debt.

3. Privatization and policies of "opening-up" and deregulation, while central to economic reform programmes advocated by the International Monetary Fund and the World Bank in such countries as Egypt and Jordan, have also been gaining momentum in other countries of the region, such as the Syrian Arab Republic and Yemen. Expanding the role of the private sector is being pursued in the context of the liberalization of trade and prices and the provision of greater incentives to investors (for example, Law No. 10 of 4 May 1991 in the Syrian Arab Republic and Law No. 22 of 1991 in Yemen). At the same time, increasing attention is being given to raising the efficiency of public enterprise and economic management.

4. The resiliency shown by some countries, notably Jordan, in coping with the aftermath of the Gulf crisis - particularly in dealing with the problem of returnees and capitalizing on their skills and savings and finding alternative markets and sources of aid for those lost in the Gulf - is highly significant, given the presumed high vulnerability of the Jordanian economy to external influences and shocks. Considerable progress made by Kuwait in reconstruction, particularly in the rehabilitation of its oil production and export facilities, should also be mentioned.

5. Although they have yet to provide any tangible results, commitment to the Middle East peace negotiations has held; in the event of their successful conclusion, the negotiations will have far-reaching implications for future growth and development in the region.

6. Additional positive features and developments are:

(a) Improved prospects for the Lebanese economy, as reflected in the increasingly positive and forthcoming attitude by international and regional lending institutions and aid donors (for example, the financial agreement by which the Government of Italy will offer grants, concessional and commercial loans in the amount of $480 million; agreement with the World Bank for loans in the amount of $175 million, and a financial grant equivalent to $37.8 million from the European Commission as a contribution to the reconstruction plan); in a significant improvement in the exchange rate of the Lebanese pound from LL2750 = $1 to LL1740 = $1 in the four months up to February 1993, associated with a significant rise in international reserves; and in some abatement in inflationary pressures;

(b) Recovery in non-oil sector activities in the Gulf (including banking, manufacturing and trade), as well as capital inflows (including capital repatriated during the Gulf crisis);

(c) Good agricultural harvests, due to abundant snow affecting favourably Jordan, Lebanon and the Syrian Arab Republic (the latter has also benefited from the expansion in production and export of crude oil);

(d) Record revenues from tourism and Suez Canal dues in Egypt and partial recovery of tourism in Jordan.

Obstacles to regional development in 1992

7. Other developments and features, however, have continued to detract from performance and development prospects. The set-back in regional cooperation efforts that resulted from the Gulf crisis and war has persisted, with adverse effects on regional trade, aid and labour flows, particularly for the less developed member countries. Frequent border disputes have contributed to strained relations, even among members of the same economic grouping and/or countries with a tradition of close economic and cultural ties. This is unfortunate, since the weakening of integration arrangements and institutions in the region is taking place at a time when other regions are forging closer economic ties and forming ever larger economic blocs.

8. Demographic pressures continue to strain the limited resources of a number of countries in the region severely, making it increasingly difficult to create employment opportunities and provide social services such as education and health, or generate adequate savings. The unemployment problem has been aggravated, in the wake of the Gulf crisis, by the loss of employment opportunities in the Gulf and recruitment policies that generally favour labour from outside the region and discriminate against nationals of some member countries.

9. The priority attached to security and defence, which was accentuated by the Gulf crisis, continues to divert scarce resources away from development. This has also contributed to widening budget deficits in some of the traditionally surplus countries, obliging some of them to resort to foreign borrowing and liquidation of assets held abroad and to pursue more conservative aid policies.

10. Income disparities within and between countries of the region remain a pressing problem, which could become a serious destabilizing factor undermining the development process.

11. The maintenance of economic sanctions by the United Nations against Iraq has continued to impose severe constraints on the ability of that country to reconstruct war damage and resume development and growth.

12. Intensified efforts by Israeli authorities to suppress the intifadah has led to further deterioration in the economic and social conditions of people in the occupied Palestinian territories.

13. In a number of countries, including Iraq, Lebanon, and Yemen, inflation and pressure on the national currency have remained untenably high. In Lebanon, despite a relatively significant strengthening of the national currency in the latter part of the year, which failed to bring about a commensurate fall in prices, the rate of inflation in 1992 is estimated at 120 per cent.

14. The devastating effects of the Gulf crisis and war, as well as the inability of the main power groups to reach agreement, have hindered the consolidation of the institutions and policies required to implement the unification agreement of May 1990 that brought together Democratic Yemen and Yemen in the Republic of Yemen.

15. Attacks on foreign tourists in Egypt since the latter part of 1992, if they continue, pose a threat to the Egyptian tourism industry and thus to the country's foreign exchange earnings and development.

Global background in 1992

16. Developments at the international level have mostly been unfavourable. World output, after falling by 0.6 per cent in 1991 in the first global contraction of the post-war era, grew by 0.4 per cent in 1992, barely a quarter of the 1.5 per cent rate projected a year earlier.

17. The virtual stagnation of world output in 1992 was largely the result of two major developments. First, developed market economies grew by a mere 1.5 per cent. Second, production continued to contract sharply in several of the economies in transition of Eastern Europe and the former Soviet Union, recording an average collapse in output of 18.4 per cent. In contrast, the performance of developing countries improved, recording an average growth rate of 4.5 per cent, but with wide inter-country differences.

18. The 2 per cent improvement in the world economy forecast for 1993 mainly reflects better conditions in the transition economies (a decline of only 3.5 per cent); a growth of 5 per cent in the developing countries (the highest rate since the 1970s, albeit concentrated in Asia); and slow but improved performance in industrial countries (2 per cent).

19. With the dismal performance of the world economy in 1992, per capita output fell and virtually no increase is expected in 1993.

20. The volume of world merchandise trade grew by about 4.5 per cent in 1992, compared to 3.9 per cent in 1991, which had been the smallest growth since 1983. This was the ninth consecutive year in which world trade grew more rapidly than world output, a period that has also been characterized by large-scale international transfers of financial resources. Stronger economic activity in the developed market economies and a reduced contraction of output in the economies in transition are expected to boost the growth of world trade in 1993.

21. Owing to poor economic performance, the rate of unemployment in all major industrial countries increased from an average of 5.6 per cent in 1990 to an average of 6.3 per cent in 1991 and 6.8 per cent in 1992 and is forecast to remain at this level in 1993.

22. On the positive side, the sluggish growth in the developed market economies reinforced the downward trend of inflation in 1992 to levels not seen since the 1960s. The average rate of inflation for all developed market economies declined from 4.5 per cent in 1991 to 3.4 per cent in 1992 and is forecast to remain at this level in 1993. Inflation also became more manageable in Latin America under the impact of stabilization and structural adjustment programmes being implemented in several countries.

23. Relaxed monetary policies have been pursued in North America and Japan in order to boost economic growth. Consequently, short-term interest rates in the United States of America fell to 3.3 per cent in the third quarter of 1992, one third their level in mid-1989, while in Japan they declined from 7.5 to 4.2 per cent. However, despite weak growth, interest rates in Europe remained high because of the restrictive monetary policy of the Bundesbank.

II. OVERALL ECONOMIC PERFORMANCE

24. The region appears to have generally recovered from the consequences of the Gulf war and crisis. Aggregate GDP is estimated to have grown by 4.5 per cent in 1992, having declined in the preceding two years (see table). All member countries, except Iraq and Yemen, achieved positive growth rates in 1992.

25. The countries that are members of the Gulf Cooperation Council (GCC), as a group, are estimated to have achieved a 5.2 per cent growth rate in 1992, compared to a 0.8 per cent decline in 1991. The fastest growth, 30 per cent, was recorded by Kuwait, where output had dropped by over 40 per cent in 1991. This robust rebound in the economic performance of Kuwait was largely attributed to the sharp increase in oil production (which by end-1992 came close to its pre-Gulf crisis level) and the boom in construction activity to rebuild the country's devastated physical infrastructure, oil installations and basic services. Improved business confidence and an increase in both public and private sector investment in several GCC countries enhanced overall economic performance, despite the decline in oil revenues in a number of member countries. Favourable growth rates experienced in non-oil sector activities compensated partially for the drop in oil revenues.

26. The economy of Saudi Arabia is estimated to have grown by 6 per cent in 1991 and 4 per cent in 1992, reflecting to a great extent higher oil production

and exports. Despite stagnating oil prices, Saudi Arabia managed to increase its oil revenues by 10.7 per cent by raising the level of oil output.

27. Oman maintained its earlier good performance, with GDP estimated to have increased by 9 per cent in 1992, up from 7.5 per cent in 1991. As in other GCC countries, growth in the non-oil sector has been the major factor behind the good performance of the Omani economy.

28. GCC countries have been intensifying their efforts at diversification and privatization, including the transfer to private ownership of part of the publicly owned companies and some companies in the downstream oil industry. However, despite lucrative incentives provided to the private sector, results have been less favourable than expected. Nevertheless, the scope of privatization in the GCC countries is expected to expand in the coming years in all sectors of the economy. The financial constraints which emerged as a result of the Gulf crisis and war have had a strong dampening effect on public expenditure, which is likely to continue for some time, implying increased opportunities for private sector participation.

29. Among the more diversified economies of the region, Jordan is estimated to have achieved the highest growth rate, 8 per cent, compared with only 1.1 per cent in 1991. The central factor behind this robust upswing was the boom in the construction sector, boosted by sharp rises in demand and investment and financed mainly through the repatriated savings of returnees. In 1992, 6 million square metres were licensed and the number of housing units increased by 20,000, or 16 per cent, compared to 1991. Increased investments in the manufacturing sector, as well as a very good agricultural season, also contributed to Jordan's good performance.

30. The Egyptian economy is estimated to have grown by 3.5 per cent in 1992. Higher oil revenues and earnings from tourism and Suez Canal dues, improvement in the country's balance of payments position and the increase in private sector investment contributed to the general improvement of the economic environment in the country.

31. In the Syrian Arab Republic, GDP is estimated to have increased by 5 per cent in 1992, boosted by higher public and private investment, a rise in oil production and a good agricultural season.

32. However, despite the good economic performance achieved by the more diversified group of countries in 1992 and their relative success in implementing adjustment programmes and policies, particularly in Egypt, Jordan and to a lesser extent the Syrian Arab Republic, fundamental structural imbalances remain. Egypt and Jordan, in particular, face double-digit unemployment rates and are heavily dependent on external financing.

33. Yemen, the least developed member country of the region, continued to suffer from the consequences of the Gulf crisis and war, despite efforts exerted to cope with the massive influx of refugees and returnees. Sharply reduced remittances and aid flows, lower oil revenues and a series of strikes by civil servants and trade unions contributed to depress the level of economic activity in the country. The country's GDP declined for the third year in a row,

although the decline of 2 per cent in 1992 was smaller than that of the two preceding years.

34. Inflationary pressures continued to pose a serious problem for a number of countries, particularly Iraq, Lebanon and Yemen. In the GCC countries, inflation remained mild and under control, although the inflation rate in Kuwait exceeded the average, owing mainly to higher reconstruction spending and a large budget deficit. Iraq continued to suffer from high inflation, fuelled by severe supply constraints and excessive money supply. Lebanon also continued to suffer from high inflation, which was accentuated by the depreciation of the local currency throughout most of 1992. Inflation reached 200 per cent during the first six months of 1992 but subsided somewhat in the latter part of the year. In Yemen, inflation remained high, exacerbated by excessive aggregate demand, depreciation of the local currency and a large budget deficit. Though no official figures were available, indications are that inflation was over 50 per cent in 1992, up from about 40 per cent in 1991. However, in some countries of the region, inflation rates came down considerably during 1992, particularly in Egypt and Jordan.

35. Privatization gained further momentum in 1992. The Syrian Arab Republic and Yemen had issued earlier investment promotion laws, not only as a vehicle for promoting investment but also to encourage private sector participation. In Egypt and Jordan, privatization is being pursued within the framework of economic and financial structural adjustment programmes. However, despite the privatization efforts being made, many related issues persist, such as how the sale of public enterprises will be effected in the absence of developed financial markets and what impact privatization and the re-employment of workers made redundant will have on the budget.

36. Unemployment in the labour-sending countries, notably Egypt, Jordan and Yemen, has been aggravated by the Gulf crisis and continues to be a major problem. Although no official data are available, indications are that unemployment remains in double digits in Egypt, Jordan and Yemen. This is not only affecting living standards but is also being reflected in increased social tensions. Prospects of resolving the unemployment problem in the short and medium terms appear dismal. However, the pressure could be eased considerably if expatriate employment policies in labour-receiving member countries were to become more favourable.

III. SECTORAL DEVELOPMENTS

Oil

37. Oil markets in 1992 were calm relative to 1990 and the first half of 1991, with average prices between 1991 and 1992 remaining virtually unchanged at $18.50 per barrel. On the supply side, the year witnessed the gradual return of Kuwait's oil production to almost its pre-Gulf crisis level, while production by countries that are members of the Organization of Petroleum Exporting Countries (OPEC) averaged 24.4 million barrels a day (mbd), the highest level since 1980. On the demand side, the increase was only marginal, less than 1 per cent, reflecting the persistence of recession in most countries that are members of the Organisation for Economic Co-operation and Development, a hesitant recovery

in the United States of America and a sharp decline in economic activity in the former Soviet Union and the economies in transition of Eastern Europe.

38. After declining by 4.2 per cent in 1991, total crude oil production in the region of the Economic and Social Commission for Western Asia (ESCWA) increased by 8.2 per cent to 14.96 mbd in 1992, up from 13.82 mbd in 1991. However, the overall increase conceals large inter-country differences. Iraq, Kuwait, Saudi Arabia and the Syrian Arab Republic managed to increase production by 53.9, 1,100, 3 and 7.7 per cent respectively, the first two countries from initially very low levels, with Iraq's output still only about one seventh of its pre-Gulf crisis level. In Bahrain, the United Arab Emirates and Yemen output fell by 2.4, 2.9 and 10.2 per cent respectively. As a share of OPEC output, the region's production increased from 56.3 per cent in 1991 to 61.3 per cent in 1992 but remained 1.2 per cent below its 1990 level.

39. Oil revenues accruing to the region increased from $68 billion in 1991 to $77.5 billion in 1992, an increase of 13.8 per cent, but remained 5.2 per cent below their 1990 level of $81.7 billion. The highest increase was recorded by Kuwait, where revenues attained $4.1 billion, compared to $500 million in 1991, followed by Saudi Arabia, with a 10.7 per cent increase, and the Syrian Arab Republic, with a 3.8 per cent increase. Revenues fell in the United Arab Emirates by 2.4 per cent and in Yemen by 16.3 per cent, mainly due to lower output. United Nations economic sanctions still prevented Iraq from exporting oil, with the exception of 50,000 barrels a day exported to Jordan in repayment of debt.

40. The share of ESCWA countries in total revenues earned by OPEC members increased from 52.7 per cent in 1991 to 56.7 per cent in 1992.

41. Proven oil reserves in the region were virtually unchanged between 1991 and 1992 at 574.8 billion barrels, accounting for 57.7 per cent of the world total and 77.4 per cent of the OPEC total. Saudi Arabia disposes of 260.3 billion barrels in proven oil reserves, or 45.3 per cent of the ESCWA region's total and 26.1 per cent of the world total. Iraq has the next largest reserves, with 100 billion barrels, representing 17.4 of the ESCWA region's total and 10 per cent of the world total. Saudi Arabia, Iraq, Kuwait and the United Arab Emirates together account for 55.5 per cent of world proven reserves. These reserves can sustain the region's current oil output for another 105 years, compared with only 43 years for the world as a whole. However, within the region, this percentage varies from 115.6 years for the United Arab Emirates and 84.4 years for Saudi Arabia to only 6.7 years for Bahrain and 8.8 years for the Syrian Arab Republic.

Natural gas

42. The region contains slightly over 17 per cent of the world's natural gas reserves, which make it a potentially significant contributor to the steadily expanding international gas market. World trade in gas and related products increased by 4.6 per cent during 1991, accounting for 15.2 per cent of marketed gas. Though most of the gas is intended for local consumption, ESCWA countries with large reserves are undertaking export-oriented development projects, such as Qatar's three-phase North Field development project. Europe and Asia are considered potential markets for gas from the region and a number of agreements

were concluded during 1992 to purchase gas once production and export facilities are in place.

43. Proven gas reserves in the ESCWA region increased by 14 per cent during 1992, mainly due to discoveries in Oman, Egypt, Yemen and Qatar. At current production rates, enough gas is available for the region as a whole for 258 years, compared to 65 years for the world as a whole.

Agriculture

44. Growth of the agricultural production index in 1992 varied from 1.7 per cent in Egypt to 48 per cent in Jordan. Despite an increase of 5.2 per cent in the area under cultivation, the region's production of cereals fell by 3.5 per cent relative to 1991. The region achieved a 3.8 per cent growth in vegetable production, owing to expansion in the use of greenhouses in most ESCWA countries. Production of fruits grew by 1.8 per cent. Moderate increases were also realized in the production of pulses, potatoes and sugar beet. Oil crops production decreased, while animal production (red and poultry meat, eggs and dairy products) achieved some growth, with inter-country variations.

45. While the share of agricultural commodities in total imports is estimated at around 17.1 per cent in 1991, their share in exports was a mere 2.6 per cent. The deficit in agricultural trade decreased from $12.5 billion in 1990 to about $11 billion in 1991. This decrease, however, remains a short-term phenomenon associated with the situation in Iraq and Kuwait.

Manufacturing

46. Despite the significant recovery achieved by Kuwait, manufacturing activity in the region declined by 8.3 per cent (value added at current prices) in 1991, having grown by only 2.7 per cent in 1990. However, excluding both Iraq (where the sector continued to suffer from the consequences of the Gulf crisis) and Kuwait, the manufacturing sector recorded a growth rate of 8.8 per cent, owing mainly to the strong performance of the food, beverages, clothing and construction industries.

47. Apart from Iraq and Kuwait, where manufacturing activities have focused mainly on reconstruction and restoration works, industrial performance in the region remained strong. The relative share of the GCC group of countries in manufacturing activity in 1991 improved, mainly due to the destruction of Iraq's industrial base and sanctions. The outlook for the sector will depend mainly on improvements in the investment climate, the ability to mobilize investments (domestic private and foreign) and success in finding export markets for the region's products. The growth of the petrochemical industries of GCC countries will largely depend on whether they succeed in negotiating better market access terms with the European Community (EC). In the diversified economies, particularly Egypt and Jordan, the performance of the sector will be enhanced if ongoing economic adjustment programmes prove successful.

Transport

48. The transport sector in the ESCWA region continued its robust growth in 1992. Most countries are making transport projects high priority in their development programmes. Efforts are also being made to reduce dependency on foreign resources for implementation. The modal division of investments in the transport infrastructure remains the subject of particular consideration, based on the priority attached to specific transport modes in each country. Among the main objectives of transport planning and policy formulation are the optimization of supply of transport services, the extension of transport networks and the harmonization of conditions for competition or complementarities among various transport modes.

49. However, despite strong performance by the transport sector in general, maritime transport still suffers from the impact of the Gulf crisis, as reflected in the reduced dead weight tonnage of the region's merchant fleet.

Exports

50. The aggregate dollar value of the region's exports, excluding Iraq and Kuwait, declined by 12.9 per cent in 1991 to $89.3 billion, as oil prices returned to their pre-Gulf crisis level, economic sanctions against Iraq deepened and the disruptive effects on trade of the Gulf crisis remained unresolved.

51. At the international level, economic recession and deepening economic and financial difficulties facing the former Soviet Union (a strong trade partner of some countries of the region), as well as other East European countries, affected the region's exports performance.

52. Apart from Saudi Arabia and Qatar, where the value of exports increased in 1991 by 10 and 6.4 per cent respectively, the remaining GCC countries recorded declines which ranged from 9.4 per cent for Bahrain to 6.5 per cent for Oman.

53. Both Yemen and the Syrian Arab Republic recorded sharp declines in exports, amounting to 28.8 and 22.6 per cent respectively, due to the fall in oil exports in Yemen and the demise in February 1991 of arrangements between the Syrian Arab Republic and the former Soviet Union, which had boosted exports during 1989-1990. However, Egypt reported a large increase, 41 per cent, as its oil exports increased by 50 per cent, while Jordan's exports increased by 6.5 per cent, despite the fact that the Iraqi market, Jordan's largest single export market, remained closed because of the sanctions.

Imports

54. The region's aggregate imports, excluding Iraq, totalled over $72 billion in 1991, implying a small improvement of 2.9 per cent over 1990. Other than Egypt and Jordan, where imports declined by 15.7 and 3.5 per cent respectively, imports increased in all ESCWA countries at rates ranging from 45.4 per cent for Lebanon to 9.4 per cent for Bahrain.

Export/import ratio

55. Partial and preliminary data point to improved export and import performance in 1992.

56. The improvement recorded in the region's ability to finance imports from export proceeds in 1989 and 1990, when the export/import ratio increased by 31 and 11 per cent respectively, was partly eroded in 1991 by a decline in exports and higher imports.

Geographical distribution of trade

57. Overall geographical distribution of the region's exports remained heavily weighted in favour of the developed market economies, although their share in the total fell from around 54 per cent in 1991 to 51.7 per cent in 1992. The share of the region's other trading partners increased slightly relative to 1990 (developing countries from 23 to 24 per cent, intraregional exports from 9 to 9.5 per cent, former centrally planned economies from 2.2 to 2.5 per cent, and the rest of the world from 11.8 to 12.3 per cent).

58. The developed market economies recorded further gains as the region's main supplier. After the large increase in their share of imports in 1991, another improvement was recorded in 1992, which raised their share from 60.7 to 61.7 per cent, compared to an average of 57.1 per cent during the period 1988 to 1990. The share of the United States of America increased even further in 1992 to reach 17.6 per cent, compared to 15.9 per cent in 1991 and an average of 12.5 per cent during the period 1988 to 1990. While the share of EC declined, it continued to be the region's leading supplier. Imports from other developing countries declined slightly but the biggest reduction occurred in intraregional imports, the share of which dropped from 7.7 per cent in 1991 to 4.7 per cent in 1992.

Current account balance

59. The combined current account balance of the region, excluding Iraq, Kuwait and Lebanon for lack of data, went back into deficit in 1991, after recording a surplus of $3.9 billion in 1989 and $4.3 billion in 1990. The $21.8 billion deficit in 1991 reflected the decline in the trade surplus from $29.6 to $26.9 billion, as well as the doubling of both the services deficit ($15.8 to $30.8 billion) and the unrequited transfers deficit ($9.5 to about $18 billion).

60. The deterioration in the region's overall current account took place despite its improvement in the non-oil economies. The overall surplus of this group increased from $1.9 billion in 1990 to $3.1 billion in 1991, as the surplus on services more than doubled and net unrequited transfers increased by $0.7 billion. Among this group, Egypt led the improvement, with its surplus increasing from $0.2 billion in 1990 to $1.9 billion in 1991, followed by Jordan, which succeeded in transforming a deficit of $0.1 billion in 1990 into a surplus of $0.4 billion in 1991. In the Syrian Arab Republic, however, the surplus was reduced by more than 50 per cent, owing to a sharp decline in the trade surplus and an increase in the services deficit.

International reserves

61. Aggregate international reserves of the region (excluding Iraq, the Syrian Arab Republic and the Republic of Yemen) increased from $31.4 billion in 1990 to $36.4 billion in 1991. The increase reflected improvement in both GCC countries' position ($22.6 billion to $24.9 billion) and the position of other ESCWA countries, mainly Egypt ($8.8 billion to $11.4 billion).

62. Partial and incomplete information for 1992 suggests a slight improvement in the overall reserve position of the region, with marked additions in Egypt and Kuwait and substantial decline in Saudi Arabia.

63. Improvement in the region's international reserves allowed member countries to provide for imports and other foreign exchange outlays, thus decreasing their external exposure and vulnerability. The reserve/import ratio for the region as a whole increased from 5.3 months in 1990 to 6.6 months in 1991. Improvement in the reserve/import ratio, however, was much higher in the non-oil economies relative to GCC countries, rising from 6.4 months to 8.2 months in the former and from 6.1 months to 6.8 months in the latter.

Government budgeting

64. Government budgeting and financial planning in the region continued to suffer in 1992 from the impact of the Gulf crisis, though to a lesser degree than in the preceding two years, when the crisis had seriously affected the availability of financial resources and patterns of expenditures, with defence and security appropriating large portions of allocations. The budgets of most ESCWA countries in 1992 aimed at restoring financial order and economic balance. The increasing budget deficits of the GCC countries were largely contained, owing mainly to the increase in government oil revenues and the trimming of expenditures, much of which was caused by financial obligations resulting from the Gulf crisis. The financial difficulties experienced by a number of non-GCC countries in the wake of the Gulf crisis, due to the loss of foreign financial sources and reduced capacity to maintain expenditure levels, particularly current expenditures, were also contained, especially as some of those countries were able to improve the process of mobilizing domestic financial resources and rationalizing expenditures.

65. Budget deficits in most GCC countries were financed partly by borrowing, domestically as well as externally, and partly by drawing on foreign assets, thus leading to a sharp rise in the indebtedness of GCC countries and to a significant decline in their foreign financial holdings. Total debt of GCC countries is estimated at around $90 billion at end-1992, of which $65 billion is domestic and the rest is external.

66. In other ESCWA countries, budget deficits were financed partly through borrowing, especially domestic borrowing, and partly through improved tax collection methods. The budget deficit as a percentage of GDP remained high for some of those countries, despite efforts undertaken to lower it by increasing the revenue base and rationalizing expenditures. For example, the budget deficit/GDP ratio for Egypt is estimated to have been around 6.5 per cent in 1992, up by 2.5 per cent over the anticipated ratio in the country's structural

adjustment programme. For Jordan, the ratio has been around 9 per cent, up by 3 per cent over that anticipated in the country's economic reform programme.

External debt

67. Total external debt of the ESCWA region is estimated at over $180 billion at end-1992, with a significant portion of the debt accounted for by Egypt, Saudi Arabia, Kuwait and Iraq. The external debt of GCC countries is mostly private and/or government-guaranteed public-sector debt and as such does not represent a major financial burden for these countries, as they can draw on their still substantial foreign financial resources to service it. The external debt of other ESCWA countries, in contrast, represents a heavy liability on the financial capabilities of non-GCC countries, especially the densely populated ones. However, a number of them were able to reschedule significant portions of their external debt. For example, Jordan has been able to reschedule most of its non-commercial bilateral and multilateral debt during the last few years. More recently, in February 1993 Jordan agreed with the London Club, a commercial lender, to buy back its debt at 37 per cent of the face value of the principal and 48 per cent of the face value of the interest.

68. In 1992, banks in most ESCWA countries, especially the GCC countries, were highly liquid, owing to the return of deposits withdrawn during the Gulf crisis and increased government expenditures. To comply with the capital adequacy ratio required by the Bank for International Settlements, most banks in the ESCWA region, especially in the GCC countries, raised their paid-in capital, either by resorting to financial reserves or issuing and placing equity shares in the domestic market.

Outlook for 1993

69. The economic outlook for 1993 is not expected to differ significantly from 1992 for the region as a whole. Prospects will be largely governed by the situation in the international oil market; progress in the Middle East peace negotiations; internal stability and political developments, particularly in Iraq; the state of cooperation among member countries; and success in removing structural imbalances and ensuring conditions for sustainable development.

70. The situation in the oil market is not expected to diverge significantly from recent trends; the only major change would be the return of Iraq to the oil market. With its large production capacity and dire need for foreign exchange, Iraq may be initially expected to attempt to maximize production and exports. This would strain the ability of OPEC to maintain supplies at levels consistent with world demand, with adverse effects on already soft oil prices. World oil demand is not expected to increase significantly in 1993, owing mainly to the continued economic slow-down in overall world economic activity.

71. While prospects in GCC countries remain largely linked to oil, non-oil sectors are expected to continue expanding.

72. In the diversified economies, the outlook for 1993 varies from one country to another. In Egypt, economic performance will be affected by the ability of the Government to maintain the momentum of economic reform, particularly in the direction of privatization and rationalizing the operations and management of

public enterprises, as well as by the volume of oil revenues, tourism and remittances. While oil revenues depend on the level of oil prices, which is not expected to change significantly in 1993, revenues from tourism could be adversely affected by attitudes and acts hostile to tourists, which have already reduced the flow of tourists considerably in the last quarter of 1992.

73. In Jordan, the economy is expected to continue to grow satisfactorily, though at a slower pace than in 1992. Actual performance will largely depend on the country's success in attracting additional foreign and domestic investment, as well as on its ability to find alternative sources of aid and export outlets where intensive and concerted public and private efforts have been positively rewarded.

74. In the Syrian Arab Republic, economic performance will largely depend on the performance of the agricultural sector, oil revenues and increased private sector investment, all of which appear to enjoy good prospects.

75. In Yemen, poor economic performance is likely to extend into 1993. The country still suffers from lack of foreign exchange, owing to reduced remittances, aid flows and oil exports. Moreover, economic recovery is being hindered by lack of progress in translating the 1990 unity agreement into workable policies and institutions.

76. On present trends, prospects for the Lebanese economy in 1993 are favourable and will be strengthened by the ability of the Government to deliver on its main promises.

77. Performance in 1993 in the countries that were adversely affected by the Gulf war and crisis, notably Yemen and Jordan, will continue to be inhibited by the slow progress of regional reconciliation.

IV. SOCIAL DEVELOPMENTS

78. The countries of the region are still trying to adjust to significant social changes that emerged in the wake of the Gulf crisis. The crisis further aggravated problems that already existed, including unemployment, disparities in living standards and poverty, drug abuse, disability and the flow of refugees and returnees.

79. High population growth, a massive influx of returnees and reduced aid flows have worsened the poverty problem in several member countries. The problem has been further exacerbated by inadequate employment opportunities and a lack of health, education, and other social facilities, particularly in rural areas. Deteriorating rural conditions have continued to prompt massive displacement of people and worsening urban poverty. In Iraq, the incidence of poverty has increased dramatically as a result of the Gulf crisis and war and the economic sanctions imposed by the United Nations Security Council. In Jordan, where almost 30 per cent of the population is considered to live below the poverty line, the Gulf crisis has added further strain. In Yemen, though no figures are available, indications point to an increase in the incidence of poverty, precipitated by the return of more than 850,000 persons from the Gulf region, in

addition to between 40,000 to 60,000 refugees from Somalia and other parts of Eastern Africa.

80. Education continues to grow and flourish in the region, as reflected in improved adult literacy rates and gross enrolment ratios in primary education and the establishment, with increasing private sector participation, of new and specialized higher education institutions responding to emerging specializations.

81. Health conditions in the region continue to improve and expand, as systematic health plans and programmes are being implemented by almost all ESCWA member countries, in the process prolonging average life expectancy and reducing infant mortality, as well as raising labour productivity. In contrast to the general improvement in health services, the health situation in Iraq continued to deteriorate, reflecting inadequate medical supplies and services. The infant mortality rate has quadrupled and cholera and typhoid, which were previously eliminated, have returned.

82. The magnitude of the problem of disability in the ESCWA region has been expanding rapidly in recent years, owing to armed conflicts such as the Gulf war and the suppression of the intifadah in the occupied Palestinian territories. Furthermore, physical disabilities caused by violence have traumatic psychological effects. The Gulf crisis and the continuing sanctions against Iraq have increased the prevalence of disability in the country. Diseases leading to impairments are on the increase, owing to lack of vaccines and poor sanitary conditions.

83. Family structure in the region has been undergoing radical transformation. Rapid urbanization, industrialization, migration, armed conflicts and political disturbances have led to a gradual erosion of traditional values. Socio-economic variables, including increased participation of women in the labour force, are having their impact on family structure in the region and are changing attitudes and values that affect relations between family members. The composition of a typical family in the region is still dominated by children and youth - over 61.7 per cent - with very high economic dependency ratios. However, despite this rapid change in the functional structure of families and society in general, family ties in the region remain strong and the family is still considered the primary source of cohesion and support for its individual members.